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# Wet Markets, Supermarkets and the "Big Middle" for Food Retailing in Developing Countries: Evidence from Thailand

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**Summary.** — Drawing on the Big Middle theory of retail evolution, an analysis of secondary and primary survey data on Thai shopping behavior seeks to understand the shift away from wet markets to supermarkets. On all salient attributes affecting retail outlet choice, supermarkets outperform wet markets. While wet markets continue to account for the majority of expenditure on fresh produce their market share has eroded sharply. A bootstrapped bivariate ordered probit model identifies the characteristics of supermarket and wet market shoppers. The analysis questions previous work which perceived wet markets in East Asia as possessing a long-term competitive advantage in food retailing.


*Key words* — food retailing, supermarkets, wet markets, Asia, Thailand

## 1. INTRODUCTION

The "Big Middle" constitutes a framework for explaining the structure and evolution of retailing institutions (Brown, Dant, Ingene, & Kaufmann, 2005; Levy, Grewal, Peterson, & Connolly, 2005; Reynolds, Howard, Hristov, & Cuthbertson, 2007). It refers to the marketspace "where the largest number of potential customers reside" (Levy *et al.,* 2005, p. 85). The latter authors argue that Big Middle retailers emerge by transcending quality or low price segments, leveraging their relative strengths (superior value) and appeal to the mass market. The Big Middle marketspace is lucrative but highly contested; over time many firms are driven out of the segment.

To date, the Big Middle framework has been exclusively applied to the USA. In North America and Western Europe, supermarkets and hypermarkets, such as Wal-Mart and Tesco, dominate food retailing and occupy the Big Middle. In East Asia, however, supermarkets and hypermarkets have traditionally played a secondary role to small-scale retailers and markets, particularly wet markets, especially for the sale of fresh produce (Goldman, Krider, & Ramaswami, 1999; Goldman, Ramaswami, & Krider, 2002; Ho, 2005).

While not using the Big Middle terminology, there are two schools of thought regarding whether supermarkets can capture it in East Asia. The first, most prominently associated with Goldman (1974) and Goldman *et al.* (1999, 2002), doubt whether supermarkets in East Asia can transcend a niche position, which is reflected in the title of the latter's 2002 paper: "the persistent competitive advantage of traditional food retailers in Asia". Against this view, Reardon, Henson, and Berdegue (2007) and Dries, Reardon, and Swinnen (2004) argue that emerging economies are subject to the rapid growth of grocery retail chains, which has often been linked to foreign direct investment. According to this perspective, supermarkets are able to overcome some of their traditional disadvantages vis-à-vis wet markets, combining both superior quality with price advantages, and hence capture the Big Middle.

Whether supermarkets conquer the "Big Middle" of Asian food markets has important implications for development and policy. Supermarkets chains typically have different procurement practices to small scale traders, affecting the market access of local farmers (Huang, Zhi, Huang, Jia, & Rozelle, 2009; Neven, Odera, Reardon, & Wang, 2009; Reardon, Barrett, Berdegue, & Swinnen, 2009). In some cases, the spread of foreign owned retail chains diminishes the market opportunities for small farmers but in other instances it has stimulated improvements in technology adoption, resource management, and productivity (Minten, Randrianarison, & Swinnen, 2009). Secondly, small-scale retailing is a major source of gainful employment in developing countries, with low barriers to entry. It provides opportunities for marginal labor – those that are poorly educated and unskilled, typically the most vulnerable and poorest in society (Goldman, 1974). If supermarkets capture the "Big Middle", opportunities for domestic entrepreneurs diminish, and those displaced may not easily gain employment within foreign-owned supermarkets (Reardon & Gulati, 2008).

The paper contributes to this debate by assessing the extent to which supermarkets have captured the Big Middle in urban Thailand, drawing on both secondary and primary survey data. In meeting this objective, we develop a customer-centric model

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for explaining the evolution of retail institutions that occupy the Big Middle, drawing on the initial insights of Levy *et al.* (2005). Through the application we assess the extent to which supermarkets can capture the Big Middle for food retailing in East Asia, contributing to the wider debate on retailing in developing countries (Mergenthaler, Weinberger, & Qaim, 2009; Minten, 2008; Reardon & Gulati, 2008; Reardon, Timmer, Barrett, & Berdegue, 2003; Reardon *et al.,* 2007).

## 2. THEORY OF THE BIG MIDDLE

According to Levy *et al.* (2005) retailers occupy one of four segments: Big Middle, low-price, innovative, and in trouble (Figure 1). Retailers that address low price and innovative segments do so through price and quality conscious appeals, respectively. Big Middle retailers succeed because of the superior relative value of their offerings, combining both quality and low prices, which induce the bulk of consumers to gravitate to them. Levy *et al.* (2005, p. 85) argue that Big Middle retailers migrate there from an initial price or quality focus by becoming "a hybrid of the two that appeals to a much larger customer base and provides great value for a broader array of merchandise". In trouble retailers, in contrast, are unable to deliver high levels of relative value.

To protect their superior position, Big Middle retailers must maintain and enhance their value proposition. Those that fail to do so will slide into the in-trouble segment. For the USA, Levy *et al.* (2005) identify department stores, as an example of retailers that shifted from the Big Middle in the 1960s and 1970s to the in trouble category. Value retailers, such as Wal-Mart and Target and category killers, such as Best Buy and Home Depot, usurped the Big Middle from the 1980s onwards (Spector 2005).

The Big Middle is, hence, dynamic – retailers both enter and exit this segment depending on perceived value. Levy *et al.* (2005) outline five primary value levers – innovative merchandise/need satisfying assortment, technology, supply chain management, price optimization, and store image that may propel retailers into the Big Middle or maintain their status. To provide need satisfying assortments requires a customer-centric approach to retailing.

## 3. THE BIG MIDDLE AND FOOD RETAILING IN EAST ASIA

In North America and Western Europe, a small number of super- and hypermarket chains currently occupy the Big Middle for food retailing, including sales of fresh produce. For instance the market share of the four largest grocery retailers in 2008 in Germany, France, and UK was 72.5%, 54.4% and 75.7%, respectively (IGD, 2009). In the same year the comparable figures for the USA and Canada were 41.6% and 58.2%, respectively. In both North America and Western Europe the market share of specialist food retailers (butchers, greengrocers, *etc.*) and general independent grocers declined dramatically from the 1950s onwards (Ducatel & Blomley, 1990).

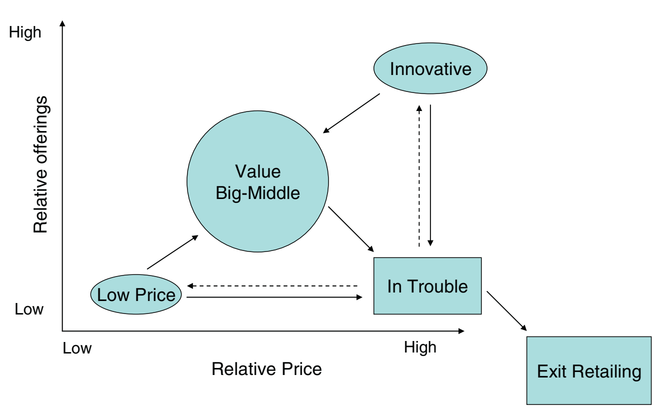


Figure 1. *The Big Middle and other segments. Source: Adapted from Levy et al. (2005, p. 85).*

In Asia, the structure of food retailing appears very different with, traditionally, markets and independent, small, limited line retailers occupying the main marketspace (Big Middle). In Hong Kong, Singapore, and South Korea, supermarkets emerged in the 1960s, targeting wealthier, urban consumers – in Levy *et al.* (2005) terminology a quality focused segment. However, in contrast to North America and Western Europe, Goldman *et al.* (1999, 2002) argue that in Asian economies wet markets have not been squeezed out by supermarkets and retain an enduring superiority. Supermarkets have not traditionally accounted for the majority of food expenditure and the structure of the supermarket sector in Asia is relatively fragmented. For instance, IGD (2009) data indicate that in Japan, South Korea, Malaysia and China the market share of the four largest grocery retailers is 22, 23, 14 and 4%, respectively.

Goldman *et al.* (2002) claim that the relatively low penetration of supermarkets in East Asia is because traditional formats, most notably wet markets, retain a value advantage over "modern" alternatives, limiting the latter's ability to capture the Big Middle. Critically regarding value, they assert that wet markets possess advantages in terms of costs, freshness and food preparation, which make them more attractive to consumers. This is because weak production and distribution systems raise the costs of supermarkets, limiting their ability to compete on price. For example for fresh produce, Asian supermarkets traditionally bought through the same supply system (wholesale markets) as wet market traders, implying a lack of buying advantages (Goldman, 2000). Moreover produce from wholesale markets is not presorted or pre-graded, functions that supermarkets have to take on themselves to sell fresh goods in a self-service environment (Goldman, 2000). Supermarkets also incur higher labor, rental, and other overhead costs and greater losses from waste and shrinkage (Goldman *et al.,* 1999). Wet markets can, therefore, undercut supermarkets on price for fresh produce and in food preparation. In contrast, according to Goldman *et al.* (2002), the strengths of supermarkets – convenience, variety, cleanliness – are regarded as relatively less important to Asian shoppers. In support of their arguments, the latter authors note that despite operating for a long period of time and a relatively high standard of living, supermarkets' market share remains well below 50% in Hong Kong, Singapore, South Korea and Taiwan. Goldman *et al.* (1999, p. 127), therefore, consider that "wet markets" dominance is not a temporary phenomenon but rather is based on real economic advantages' and that "modernization need not follow the Western model, which assumes that all traditional food retail formats are inferior to the supermarket" (p. 138).

Not all, however, accept Goldman and his colleagues' analysis, which has been criticized on two main grounds: that it fails to capture recent structural change and lacks an appropriate historical context. Reardon *et al.* (2007) argue that modern retail formats in East Asia "took off" in the late 1990s while Goldman *et al.* (1999, 2002) conclusions draw on data for the mid-1990s. The latter's work therefore may fail to capture recent structural change. Since Goldman *et al.* (1999) analysis